

PERAC AUDIT REPORT



Everett Contributory Retirement System

JAN. 1, 2002 - DEC. 31, 2004 / PERAC 04: 12-033-02



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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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KENNETH J. DONNELLY | JAMES M. MACHADO | DONALD R. MARQUIS | THOMAS TRIMARCO

JOSEPH E. CONNARTON, *Executive Director*

May 17, 2006

The Public Employee Retirement Administration Commission has completed an examination of the Everett Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2002 to December 31, 2004. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiners James Sweeney and James Tivnan who conducted this examination and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton
Executive Director



Everett Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2004

1. Cash and Bank Reconciliation:

There should be a more formal regular reconciliation process between the Treasurer's Office and the Retirement Board for bank account activity. We observed unresolved differences for several months that were reported on the monthly bank reconciliation.

At the end of the audit period, there were seven checks outstanding for more than six months. There were also five deposits that had been credited to this bank account in error from prior months that had not been resolved.

Recommendation: The Treasurer's Office should prepare all reconciliations on a monthly basis and forward them to the Retirement Board for review and adjustment. If the Retirement Board does not receive future reconciliations by the end of the following month, they should request the reconciliation in writing from the Treasurer's Office.

Any items that remain outstanding for more than six months should be researched, so that proper voiding and reissue of these items can be completed, if necessary. Deposits identified, as not belonging to the Retirement System should be promptly transferred to the custody of the City Treasurer.

Board Response:

As the audit report indicates, the formal reconciliations of the retirement checking [account] were not done in a timely manner for the period of June 2004 through December 2004 by the Treasurer's office. This was the direct result of the Treasurer being terminated in June 2004 and no permanent Treasurer being appointed until January 2006. During the first two and a half years of the audit period the Treasurer did the reconciliations in a timely manner. The former Treasurer has returned to his position effective January 2006 and the monthly reconciliations for the checking account and the retirement payroll account have been completed through December 2005. The exceptions noted in the audit report have been corrected. While the Treasurer's office was late in submitting formal reconciliations, the Retirement Office performed their own reconciliations on a monthly basis, identified any exceptions, and sent the Treasurer documentation on each exception.

2. Membership:

PERAC auditors sampled members' deduction rates to determine that correct percentages are being withheld, and that the additional 2% deduction is withheld from those members who make over \$30,000 and were hired after January 1, 1979. The additional 2% deduction was inconsistent for members receiving separate checks for other regular income such as clothing allowances and stipends. Some were having the additional 2% withheld for total compensation over \$576.92 per weekly pay period and others were not. The Everett Housing Authority was not correctly withholding deductions for retroactive pay and clothing allowances. The Board staff analyzes deductions at the end of each year and make up payments are withheld by the payroll departments.

Everett Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2004

The payroll detail provided by the City was insufficient to determine that contributions were only taken from regular compensation. Apparently, the City's outside payroll service has had difficulty calculating which pay codes to include as regular compensation on member's receiving separate checks as outlined above.

Recommendation: The Board must comply with G.L. c. 32, § 22(1)(b½), and PERAC Memo #43/1999, which directs that the additional 2% deductions be withheld on total regular income over \$30,000 on a per pay-period basis. The Retirement Board must review all pay codes to determine their proper classification for qualified retirement compensation. In addition, a training program should be established for all payroll personnel, including representatives from outside payroll services. All persons charged with processing retirement deductions should receive copies of any and all memos or notices relating to new regulations or other changes involving eligibility or contribution rates.

Board Response:

In certain situations where an employee receives more than one payroll check in the same period, the payroll system is not correctly calculating the 2% deduction. This problem was identified when the payroll company was first retained and the retirement office has spent considerable time in trying to correct this problem. As the Director explained to the auditors, the payroll company is retained by the City of Everett and the board has limited leverage in addressing these issues with this firm. The payroll company, however, has recently informed us that changes in the programming of the company they lease the software from, should allow them to correct these problems. To remedy the 2% deduction problem, the retirement office maintains an excel spreadsheet and annually calculates the retirement deductions of all 600 employees and compares it to what was actually collected by the payroll system. Any discrepancy found by this process is collected through the payroll system, usually in the first quarter of the next year. From the point of view of the Retirement Board, and presumably PERAC, the most important issue here is whether the deductions were being calculated and collected correctly. The auditors did not find one example of where a member underpaid or overpaid retirement deductions and the Board is satisfied that all retirement deductions are calculated and collected correctly for all members.

3. Review of Minutes and Board Member Attendance

The Auditor reviewed Board Meeting Minutes from January 2002 through May 2005. Two Board members were absent from 30% of the meetings in 2004.

Recommendation: Attendance at Board meetings is an obligation that must be fulfilled by all Board members. An absentee rate of twenty-five percent or more is considered excessive. It is the Board's responsibility to advise members who fail to uphold their duties to the System, and to take appropriate action with such members, when necessary. The Board may want to consider changing the meeting times to accommodate all members' schedules. Since the City has granted Board

Everett Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2004

members an annual stipend for service, the Board may want to consider adopting a supplemental regulation making payment of the stipend subject to reasonable attendance at Board meetings.

Board Response:

The two board members that missed more than 30% of the meetings are no longer members of the Board.

Administrative Observation

The Director is to be commended for reviewing the PERAC audit reports posted on our web site (www.mass.gov/perac) and making proactive corrections. We observed that the calculation of Annuity Reserve Interest had been corrected and adjusted in 2004 for errors in calculating interest that occurred in both 2002 and 2003. These adjustments were the direct result of audit findings made at other retirement systems.

Final Determination

PERAC auditors will follow-up in six (6) months to ensure that the appropriate actions have been taken regarding all findings.

Everett Retirement System

STATEMENT OF LEDGER ASSETS AND LIABILITIES

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 2002
AND ENDING DECEMBER 31, 2004**

FOR THE PERIOD ENDING DECEMBER 31,			
ASSETS	2004	2003	2002
Cash	\$22,756	\$24,227	\$54,599
Short Term Investments	35,644	253,550	317,376
Fixed Income Securities (at book value)	385,997	332,525	332,144
Equities	6,258,394	16,359,360	14,826,883
Pooled Short Term Funds	0	0	0
Pooled Domestic Equity Funds	9,738,936	11,038,236	14,137,727
Pooled International Equity Funds	0	3,637,098	2,071,868
Pooled Global Equity Funds	2,851,454	0	0
Pooled Domestic Fixed Income Funds	13,076,350	9,640,327	7,500,509
Pooled International Fixed Income Funds	1,508,896	0	0
Pooled Global Fixed Income Funds	3,244,182	0	0
Pooled Alternative Investment Funds	531,430	601,984	745,721
Pooled Real Estate Funds	4,156,618	2,497,985	0
Pooled Domestic Balanced Funds	1,665,919	0	0
Pooled International Balanced Funds	2,453,790	0	0
PRIT Cash Fund	0	0	0
PRIT Core Fund	0	0	0
Interest Due and Accrued	19,088	19,215	19,402
Accounts Receivable	415,572	34,017	53,959
Accounts Payable	(229,994)	(13,877)	(35,069)
TOTAL	<u>\$46,135,031</u>	<u>\$44,424,649</u>	<u>\$40,025,120</u>
FUND BALANCES			
Annuity Savings Fund	\$18,788,665	\$17,221,878	\$17,631,880
Annuity Reserve Fund	9,134,446	9,737,582	8,446,676
Pension Fund	(8,744,308)	(6,057,933)	(2,481,341)
Military Service Fund	0	0	0
Expense Fund	0	0	0
Pension Reserve Fund	26,956,229	23,523,121	16,427,905
TOTAL	<u>\$46,135,031</u>	<u>\$44,424,649</u>	<u>\$40,025,120</u>

Everett Retirement System

STATEMENT OF CHANGES IN FUND BALANCES

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 2002
AND ENDING DECEMBER 31, 2004**

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2002)	\$16,571,685	\$8,413,555	(\$477,799)	\$0	\$0	\$22,803,047	\$47,310,487
Receipts	2,286,312	237,003	6,401,516	0	390,107	(6,375,142)	2,939,797
Interfund Transfers	(905,549)	906,831	(1,281)	0	0	0	0
Disbursements	<u>(320,567)</u>	<u>(1,110,713)</u>	<u>(8,403,777)</u>	<u>0</u>	<u>(390,107)</u>	<u>0</u>	<u>(10,225,164)</u>
Ending Balance (2002)	17,631,880	8,446,676	(2,481,341)	0	0	16,427,905	40,025,120
Receipts	2,305,791	235,410	6,069,778	0	362,696	7,095,217	16,068,892
Interfund Transfers	(2,428,556)	2,431,718	(3,162)	0	0	0	0
Disbursements	<u>(287,238)</u>	<u>(1,376,221)</u>	<u>(9,643,209)</u>	<u>0</u>	<u>(362,696)</u>	<u>0</u>	<u>(11,669,364)</u>
Ending Balance (2003)	17,221,878	9,737,582	(6,057,933)	0	0	23,523,121	44,424,649
Receipts	2,227,609	318,479	7,282,868	0	401,100	3,433,107	13,663,163
Interfund Transfers	(346,837)	358,126	(11,289)	0	0	0	0
Disbursements	<u>(313,986)</u>	<u>(1,279,741)</u>	<u>(9,957,954)</u>	<u>0</u>	<u>(401,100)</u>	<u>0</u>	<u>(11,952,781)</u>
Ending Balance (2004)	<u>\$18,788,665</u>	<u>\$9,134,446</u>	<u>(\$8,744,308)</u>	<u>\$0</u>	<u>\$0</u>	<u>\$26,956,229</u>	<u>\$46,135,031</u>

Everett Retirement System

STATEMENT OF INCOME

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 2002
AND ENDING DECEMBER 31, 2004**

	FOR THE PERIOD ENDING DECEMBER 31,		
	2004	2003	2002
Annuity Savings Fund:			
Members Deductions	\$2,016,237	\$1,911,839	\$2,034,405
Transfers from other Systems	27,023	86,144	7,155
Member Make Up Payments and Redeposits	83,186	144,270	19,435
Investment Income Credited to Member Accounts	<u>101,163</u>	<u>163,539</u>	<u>225,317</u>
Sub Total	<u>2,227,609</u>	<u>2,305,791</u>	<u>2,286,312</u>
Annuity Reserve Fund:			
Investment Income Credited Annuity Reserve Fund	<u>318,479</u>	<u>235,410</u>	<u>237,003</u>
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems	83,722	68,340	59,528
Received from Commonwealth for COLA and Survivor Benefits	866,553	151,437	615,134
Pension Fund Appropriation	<u>6,332,593</u>	<u>5,850,000</u>	<u>5,726,854</u>
Sub Total	<u>7,282,868</u>	<u>6,069,778</u>	<u>6,401,516</u>
Military Service Fund:			
Contribution Received from Municipality on Account of Military Service	0	0	0
Investment Income Credited Military Service Fund	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>0</u>	<u>0</u>	<u>0</u>
Expense Fund:			
Expense Fund Appropriation	0	0	0
Investment Income Credited to Expense Fund	<u>401,100</u>	<u>362,696</u>	<u>390,107</u>
Sub Total	<u>401,100</u>	<u>362,696</u>	<u>390,107</u>
Pension Reserve Fund:			
Federal Grant Reimbursement	44,379	38,642	41,156
Pension Reserve Appropriation	0	0	0
Interest Not Refunded	4,258	2,407	7,231
Excess Investment Income	<u>3,384,470</u>	<u>7,054,167</u>	<u>(6,423,529)</u>
Sub Total	<u>3,433,107</u>	<u>7,095,217</u>	<u>(6,375,142)</u>
TOTAL RECEIPTS	<u>\$13,663,163</u>	<u>\$16,068,892</u>	<u>\$2,939,797</u>

Everett Retirement System

STATEMENT OF DISBURSEMENTS

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 2002
AND ENDING DECEMBER 31, 2004**

FOR THE PERIOD ENDING DECEMBER 31,			
	2004	2003	2002
Annuity Savings Fund:			
Refunds to Members	\$290,347	\$199,686	\$261,332
Transfers to other Systems	<u>23,639</u>	<u>87,552</u>	<u>59,235</u>
Sub Total	<u>313,986</u>	<u>287,238</u>	<u>320,567</u>
Annuity Reserve Fund:			
Annuities Paid	1,251,955	1,169,718	1,083,280
Option B Refunds	<u>27,787</u>	<u>206,503</u>	<u>27,433</u>
Sub Total	<u>1,279,741</u>	<u>1,376,221</u>	<u>1,110,713</u>
Pension Fund:			
Pensions Paid			
Regular Pension Payments	5,828,149	5,407,481	4,907,406
Survivorship Payments	578,958	502,960	481,174
Ordinary Disability Payments	291,405	298,802	291,154
Accidental Disability Payments	1,886,128	1,857,609	1,723,276
Accidental Death Payments	905,615	915,221	746,108
Section 101 Benefits	165,714	154,802	165,886
3 (8) (c) Reimbursements to Other Systems	301,984	506,333	88,773
State Reimbursable COLA's Paid	-	-	-
Chapter 389 Beneficiary Increase Paid	-	-	-
Sub Total	<u>9,957,954</u>	<u>9,643,209</u>	<u>8,403,777</u>
Military Service Fund:			
Return to Municipality for Members Who Withdrew Their Funds		<u>0</u>	<u>0</u>
Expense Fund:			
Board Member Stipend	18,000	18,000	18,000
Salaries	115,421	104,627	100,709
Legal Expenses	2,738	6,507	7,546
Medical Expenses	-	-	-
Travel Expenses	-	-	-
Administrative Expenses	32,242	15,330	32,997
Furniture and Equipment	-	-	-
Management Fees	181,934	156,984	173,325
Custodial Fees	50,765	61,248	57,531
Consultant Fees		<u>0</u>	<u>0</u>
Sub Total	<u>401,100</u>	<u>362,696</u>	<u>390,107</u>
TOTAL DISBURSEMENTS	<u>\$11,952,781</u>	<u>\$11,669,364</u>	<u>\$10,225,164</u>

Everett Retirement System

INVESTMENT INCOME

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 2002
AND ENDING DECEMBER 31, 2004**

	FOR THE PERIOD ENDING DECEMBER 31,		
	2004	2003	2002
Investment Income Received From:			
Cash	\$5,450	\$794	\$2,191
Short Term Investments	1,012	4,641	11,226
Fixed Income	41,125	41,125	41,125
Equities	184,351	197,821	199,977
Pooled or Mutual Funds	0	0	139,852
Commission Recapture	8,733	17,353	6,505
TOTAL INVESTMENT INCOME	<u>240,671</u>	<u>261,734</u>	<u>400,876</u>
Plus:			
Increase in Amortization of Fixed Income Securities			
Realized Gains	1,233,187	2,054,870	695,078
Unrealized Gains	5,911,383	7,435,423	2,862,212
Interest Due and Accrued on Fixed Income Securities - Current Year	19,088	19,215	19,402
Sub Total	<u>7,163,658</u>	<u>9,509,508</u>	<u>3,576,692</u>
Less:			
Decrease in Amortization of Fixed Income Securities			
Paid Accrued Interest on Fixed Income Securities	0	0	0
Realized Loss	(1,719,467)	(635,924)	(3,438,008)
Unrealized Loss	(1,460,434)	(1,300,103)	(6,090,365)
Custodial Fees Paid	-	-	-
Consultant Fees Paid	-	-	-
Management Fees Paid	-	-	-
Board Member Stipend	-	-	-
Interest Due and Accrued on Fixed Income Securities - Prior Year	(19,215)	(19,402)	(20,296)
Sub Total	<u>(3,199,117)</u>	<u>(1,955,429)</u>	<u>(9,548,669)</u>
NET INVESTMENT INCOME	<u>4,205,212</u>	<u>7,815,813</u>	<u>(5,571,101)</u>
Income Required:			
Annuity Savings Fund	101,163	163,539	225,317
Annuity Reserve Fund	318,479	235,410	237,003
Military Service Fund	0	0	0
Expense Fund	401,100	362,696	390,107
TOTAL INCOME REQUIRED	<u>820,742</u>	<u>761,645</u>	<u>852,427</u>
Net Investment Income	<u>4,205,212</u>	<u>7,815,813</u>	<u>(5,571,101)</u>
Less: Total Income Required	<u>820,742</u>	<u>761,645</u>	<u>852,427</u>
EXCESS INCOME TO THE PENSION RESERVE FUND	<u>\$3,384,470</u>	<u>\$7,054,167</u>	<u>(\$6,423,529)</u>

Everett Retirement System

STATEMENT OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2004

	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED*
Cash	\$22,756	0.05%	100
Short Term	35,644	0.08%	100
Fixed Income	385,997	0.84%	30 - 80
Equities	6,258,394	13.63%	60
Pooled Short Term Funds		0.00%	
Pooled Domestic Equity Funds	9,738,936	21.20%	
Pooled International Equity Funds		0.00%	
Pooled Global Equity Funds	2,851,454	6.21%	10
Pooled Domestic Fixed Income Funds	13,076,350	28.47%	
Pooled International Fixed Income Funds	1,508,896	3.29%	
Pooled Global Fixed Income Funds	3,244,182	7.06%	
Pooled Alternative Investment Funds	531,430	1.16%	5
Pooled Real Estate Funds	4,155,618	9.05%	10
Pooled Domestic Balanced Funds	1,665,919	3.63%	
Pooled International Balanced Funds	2,453,790	5.34%	
PRIT Cash Fund		0.00%	
PRIT Core Fund		0.00%	100
GRAND TOTALS	<u>\$45,929,365</u>	<u>100.00%</u>	

For the year ending December 31, 2004, the rate of return for the investments of the Everett Retirement System was 9.16%. For the five-year period ending December 31, 2004, the rate of return for the investments of the Everett Retirement System averaged 1.30%. For the twenty-year period ending December 31, 2004, since PERAC began evaluating the returns of the retirement systems, the rate of return of the investments of the Everett Retirement System was 9.51%.

Everett Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2004

The Everett Retirement System submitted the following supplementary investment regulations, which were approved by PERAC on:

November 29, 2004

16.08

In accordance with PERAC Investment Guideline 99-2, the Everett Retirement Board is authorized to modify its equity management mandate with RhumbLine Advisers. In addition to existing index fund mandates for large cap and mid cap equities, RhumbLine will now manage a small cap index fund for the Board. Funds for this mandate will come from a recently terminated actively managed account run by SEB. The Board has been very satisfied with the performance and service offered by RhumbLine, it has surveyed the products of other small cap index providers, and it feels that it will have benefits of flexibility and efficiency by having all of its index management mandate with one provider.

October 13, 2004

16.08

In accordance with Investment Guideline 99-2, the Everett Retirement Board is authorized to modify its international equity mandate with State Street Global Advisors. The Board will transfer assets from the existing investment in SSGA's International Growth Opportunities Fund into a combination of the SSGA MSCI-EAFE Strategy Fund (an index fund) and the SSGA International Alpha Strategy Fund. By replacing a fund that is growth-orientated with two funds that offer a "core" approach, the Board hopes to achieve more consistent performance over time. The new funds invest in the same universe and have the same benchmark as the IGOF fund and they also have lower fees.

March 10, 2004

16.08

In accordance with Investment Guideline 99-2, the Everett Retirement Board is authorized to:

- (1) transfer 10% of the assets currently invested in the RhumbLine S&P 500 Fund to the RhumbLine S&P 400 Mid Cap Fund in order to obtain broader market exposure
- (2) transfer 10% of the assets currently invested in the SSGA Daily Bond Market Fund to the SSGA TIPS (Treasury Inflation Protected Securities) Fund in order to obtain broader market exposure
- (3) change its small cap equity mandate with SEB from a separately managed account to a commingled fund, the SEB Small Cap Commingled Fund, in order to achieve reduced custodial fees

January 2, 2004

19.01(4)

The Everett Retirement Board is authorized to increase its investments in real estate from a maximum of 5% of the total market value of the portfolio to a maximum of 10%. The percentages refer to market values at the time of the investment.

Everett Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2004

October 16, 1997

20.03(1) Equity investments shall not exceed 60% of the total book value of the portfolio at the time of purchase.

20.03(2) At least 30%, but no more than 80%, of the total portfolio valued at market shall consist of fixed income investments with a maturity of more than one year including Yankee Bonds and Eurobonds which shall be limited to 20% of the total fixed income portfolio valued at market.

June 30, 1993

20.09(1) Venture capital investments shall not exceed 3% of the total market value of the portfolio at the time of the investment provided that in any system with assets in excess of nineteen million dollars, venture capital investments may be made up to an amount equal to 5% of the total market value of the portfolio at time of investment, shall be considered a separate asset class, and provided further that:

(a) the board does not participate in the selection of the personnel responsible for making venture capital investments or otherwise exercise discretion in business affairs and should this be required, prior to any participation by the board, the board shall consult with PERAC to determine the appropriate course of action;

(b) such personnel retain authority in the decision making process, and

(c) should an investment in venture capital result in the direct ownership of securities, such shall be permitted only until such time as divestiture is prudent.

20.09(3) All venture capital investments shall be made in companies which have their principal place of business in the United States.

March 5, 1992

20.06(8) Purchases and sales of fixed income investments with maturities exceeding one year shall not exceed 200% of the market value of all fixed income obligations in any twelve-month period, excluding cash and short term obligations.

20.07(6) Purchases and sales of equity investments shall not exceed 100% of the average market value of all equity holdings in any twelve-month period.

20.04(6) Equities of non-United States based companies, provided such securities are denominated in United States currency, are listed on a United States exchange or traded over the counter in the United States and provided further that the total securities not exceed 10% of the market value of the portfolio.

Everett Retirement System

NOTES TO FINANCIAL STATEMENTS

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2004

NOTE 1 - THE SYSTEM

The plan is a contributory defined benefit plan covering all Everett Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

Instituted in 1937, the System is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws. Membership in the plan is mandatory immediately upon the commencement of employment for all permanent, full-time employees.

The system provides for retirement allowance benefits up to a maximum of 80% of a member's highest three year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65 (for certain hazardous duty and public safety positions, normal retirement is at age 55).

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension. The average retirement benefit is approximately 75 - 85% pension and 15 - 25% annuity.

Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Members joining the retirement system after January 1, 1979 must contribute an additional 2% on regular compensation earned at a rate in excess of \$30,000. The percentage rate is keyed to the date upon which an employee's membership commences. These deductions are deposited in the Annuity Savings Fund and earn interest at a rate determined by the Executive Director of PERAC according to statute. When a member's retirement becomes effective, his/her deductions and related interest are transferred to the Annuity Reserve Fund. Any cost-of-living adjustment granted between 1981 and 1997 and any increase in other benefits imposed by state law during that period are borne by the state.

The pension portion of any retirement benefit is paid from the Pension Fund of the System. The governmental unit employing the member must annually appropriate and contribute the amount of current year pension payments as indicated on the most recent funding schedule as approved by PERAC's Actuary. Until recently, retirement systems were paying only the actual retirement

Everett Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2004

benefits that were due each year. Systems had no statutory authorization to put aside any money for the future benefits of employees who are now working. Large unfunded liabilities resulted from operating upon this pay-as-you-go basis. In 1977, legislation authorized local governments to appropriate funds to meet future pension obligations.

In 1983, additional legislation was passed requiring the transfer of investment earnings (in excess of the amount credited to member accounts) into the Pension Reserve Fund. These initiatives have significantly reduced the rate of growth of the retirement systems' unfunded liabilities, and in some systems have actually eliminated such liability.

Administrative expenses are funded through investment income of the system.

Members who become permanently and totally disabled for further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent upon several factors including: whether or not the disability is work related, the member's age, years of creditable service, level of compensation, veteran's status, and group classification.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive either zero (0%) percent, fifty (50%) percent, or one hundred (100%) percent of the regular interest which has accrued upon those deductions. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Executive Director of Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Voluntary contributions, redeposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

Everett Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2004

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Everett Retirement System submitted the following supplementary membership regulations, which were approved by PERAC on:

February 11, 2003

CREDITABLE SERVICE

Full time employment shall be considered a workweek of 28 hours or more. Each week of full time employment for a member shall be granted a full week of creditable service. Creditable service for members, who work less than 28 hours per week, shall be calculated on a prorated basis as it relates to full time employment. The denominator in calculating this prorated time shall be 28 hours per week. For example, a member working 14 hours per week shall be granted creditable service for 50% ($14/28=50\%$) of one workweek. Members who are employed less than 28 hours per week and who work a set amount of hours on a consistent basis throughout their career will receive full creditable service provided that they have not been full/part time employees as previously stated.

Everett Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2004

SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

April 17, 2001

MAKE-UP PAYMENTS

Make up payments consist of regular contributions plus interest received at the time of a refund plus interest the employees account would have earned had they not received a refund. Purchases of prior creditable service may be made in a lump sum any time prior to retirement or in annual periodic payments. Annual periodic payments are subject to board approval and such requests shall be reviewed by the board on a case by case basis.

January 9, 2001

MEMBERSHIP

Persons who are scheduled to be employed a total of 20 hours per week or more in any job or combination of jobs for at least 7 months in a calendar year are eligible for membership in the retirement system. Persons who do not meet the minimum membership requirements as stated above are not eligible for membership. Membership is mandatory for all employees who are eligible for membership. All eligible employees shall be enrolled in the system at the inception of their employment.

Appointed members of boards, commissions, and authorities are not eligible for membership. No creditable service shall be granted for the same, nor will they be eligible to buy back credit for such work.

Permanent full time substitute teachers and permanent full time tutors are allowed in system. Non-permanent and/or non-full time substitute teachers and non-permanent and/or non-full time tutors are not allowed in system.

CREDITABLE SERVICE

A full year of employment shall be credited with a full year of creditable service. Work of less than a full year shall be credited pro rata to the appropriate full year. A full year shall be based on a 12-month calendar year for all employees with the exception of school department personnel which shall be based on 180 work days per year.

Full time employment shall be considered a workweek of 30 hours or more. Each week of full time employment for a member shall be granted a full week of creditable service.

Creditable service for members, who work less than 30 hours per week, shall be calculated on a prorated basis as it relates to full time employment. The denominator in calculating this prorated time shall be 30 hours per week. For example a member working

12 hours per week shall be granted creditable service for 40% ($12/30=40\%$) of one workweek.

Everett Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2004

SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

Members who are employed less than 30 hours per week and who work a set amount of hours on a consistent basis throughout their career will receive full creditable service provided that they have not been full time/part time employees as previously stated.

MAKE-UP PAYMENTS

Members may request, in writing, permission to make up payments for their previous employment if the Retirement System from which they were previously employed is established within Chapter 32. Each member requesting permission to make payments for their previous employment shall provide the retirement system with a verified list of salaries earned by them, by calendar year, not including any overtime or bonuses and hours worked on a weekly basis so that eligibility can be determined and a payment can be calculated. Make up payments consist of regular contributions plus interest received at the time of a refund plus interest the employees account would have earned had they not received a refund.

Members of any retirement system established under Chapter 32 may purchase past creditable service from the Everett Retirement System consistent with the provisions of Chapter 32, PERAC regulations and supplemental regulations of the Everett Retirement Board.

Purchases of prior creditable service may be made in a lump sum any time prior to retirement or in annual periodic payments. Annual periodic payments are subject to board approval and such requests shall be reviewed by the board on a case by case basis.

REGULAR COMPENSATION

Regular compensation for purposes of the retirement deductions and retirement allowance calculations shall consist of salary earned, longevity pay, auto allowance, and other such expenses paid on a regular basis and at a regular rate for all employees.

Excluded from regular compensation is any compensation resulting from working overtime such as overtime compensation and meal allowances. For fire and police department personnel, regular compensation shall also include night differential, adjunct allowance, holiday pay and hazardous duty material training for fire department personnel only (unless such compensation was considered over-time compensation).

DATE OF MONTHLY BOARD MEETINGS

Retirement board meetings to be held on the last Wednesday of the month at 9:00 AM unless a majority of the board votes otherwise.

SERVICE BUYBACK POLICY

Members of the retirement system may purchase creditable service for previous service with a Massachusetts governmental unit, consistent with the provisions of Chapter 32, in which they received a refund of contributions upon termination. Members may also, in certain situations consistent with the provisions of Chapter 32, purchase creditable service for previous service for a governmental unit in which deductions were not taken. The policy stated below pertains only to the

Everett Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2004

SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

method of purchasing back previous service and is not intended to add to or modify any provisions in Chapter 32 or PERAC regulations concerning the definition of creditable service.

It will be the policy of the Everett Retirement Board to require that any request to purchase applicable creditable service will be based on a payment plan submitted by the member, and subject to board approval, that will pay the necessary amount, including interest, within a five-year period. Furthermore, the member shall make the payments on an annual basis to the Everett Retirement Board. The member may elect to make periodic payments to a financial institution and instruct such institution to make the necessary annual payment to the Everett Retirement Board. The staff of the retirement system will advise members of financial institutions, if any, who may provide this service.

Members who are unable to purchase their creditable service within a five-year period due to a proven hardship may petition the board for a period of payment in excess of five years. The petition to the board must clearly demonstrate the financial hardship in writing to the board. The Everett Retirement Board will review each such request and will vote to accept, reject, or request modifications/clarifications to such petition.

These supplemental rule provides rules for membership, creditable service, make up payments, regular compensation, meetings, and service buyback and are consistent with the provisions of G.L. c. 32.

August 24, 1994

Membership The Retirement Board will not require seasonal employees to join the retirement system.

Everett Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2004

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five person Board of Retirement consisting of the City Auditor who shall be a member ex officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex officio Member: Frank Coppola

Appointed Member: William R. Pietrantonio

Elected Member: Ronald V D'Onofrio Term Expires: 4/14/06

Elected Member: William J. Pierce Term Expires: 12/29/05

Appointed Member: Frank Mastrocola Term Expires: 7/25/07

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by at least two members of the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian:)	
Ex officio Member:)	\$40,000,000 MACRS Policy
Elected Member:)	
Appointed Member:)	
Staff Employee:)	

Everett Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2004

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by Mellon Human Resources & Investor Solutions as of January 1, 2004.

The actuarial liability for active members was	\$41,618,557
The actuarial liability for retired and inactive members was	<u>86,562,807</u>
The total actuarial liability was	128,181,364
System assets as of that date were (actuarial value)	<u>50,498,034</u>
The unfunded actuarial liability was	<u>\$77,683,330</u>
 The ratio of system's assets to total actuarial liability was	 39.4%
As of that date the total covered employee payroll was	\$20,907,478

The normal cost for employees on that date was 8.32% of payroll

The normal cost for the employer was 4.48% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 8.50% per annum
Rate of Salary Increase: varies based on group and service

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2004

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2004	\$50,498,034	\$128,181,364	\$77,683,330	39.4%	\$20,907,478	371.56%
1/1/2001	\$51,659,622	\$113,565,481	\$61,905,859	45.5%	\$21,178,617	292.30%
1/1/1999	\$55,875,028	\$108,556,598	\$52,681,570	51.5%	\$18,993,929	277.36%

Everett Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2004

NOTE 6 - MEMBERSHIP EXHIBIT

Retirement in Past Years	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Superannuation	18	28	21	16	10	13	14	13	48	5
Ordinary Disability	1	2	2	0	0	1	0	1	1	0
Accidental Disability	3	5	2	2	1	2	1	3	3	4
Total Retirements	22	35	25	18	11	16	15	17	52	9
 Total Retirees, Beneficiaries and Survivors	 539	 614	 619	 620	 609	 613	 599	 601	 634	 619
 Total Active Members	 600	 570	 575	 618	 641	 656	 646	 605	 528	 544
Pension Payments										
Superannuation	\$3,573,056	\$3,842,421	\$4,272,208	\$4,306,873	\$4,489,471	\$4,718,233	\$4,900,446	\$4,907,406	\$5,407,481	\$5,828,149
Survivor/Beneficiary Payments	401,797	421,068	434,680	450,629	450,523	463,520	473,636	481,174	502,960	578,958
Ordinary Disability	264,472	247,137	283,840	280,716	253,442	267,847	277,444	291,154	298,802	291,405
Accidental Disability	1,695,744	1,776,823	1,799,472	1,824,971	1,906,232	1,914,346	1,814,595	1,723,276	1,857,609	1,886,128
Other	<u>659,692</u>	<u>708,417</u>	<u>726,682</u>	<u>762,324</u>	<u>983,670</u>	<u>1,131,581</u>	<u>1,113,387</u>	<u>1,000,767</u>	<u>1,576,356</u>	<u>1,373,313</u>
Total Payments for Year	<u>\$6,594,761</u>	<u>\$6,995,866</u>	<u>\$7,516,882</u>	<u>\$7,625,513</u>	<u>\$8,083,338</u>	<u>\$8,495,527</u>	<u>\$8,579,508</u>	<u>\$8,403,777</u>	<u>\$9,643,209</u>	<u>\$9,957,954</u>

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